

Message Text

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ACTION EUR-12

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USEEC

E.O. 11652: N/A
TAGS: ENRG, UK
SUBJECT: KEARTON URGES CHANGE IN NORTH SEA TAX REGIME

1. BEGIN UNCLASSIFIED. THE CHAIRMAN OF THE STATE-OWNED BRITISH NATIONAL OIL CORPORATION (BNOC), LORD KEARTON, HAS URGED A REVIEW OF NORTH SEA TAXES. SPEAKING AS AN "ORDINARY CITIZEN" AFTER BNOC'S MONTHLY BOARD MEETING, KEARTON DESCRIBED THE EXISTING REGIME AS "EXTRA-ORDINARILY ATTRACTIVE". WHILE EMPHASIZING THAT BNOC ITSELF HAD NOT MADE ANY RECOMMENDATIONS TO THE GOVERNMENT, KEARTON NOTED THAT THE PETROLEUM REVENUE TAX (PRT) ALLOWED A 175 PERCENT DEPRECIATION ON THE COST OF PRODUCTION EQUIPMENT. "THAT 75 PERCENT EXTRA MEANS YOU CAN MAKE MONEY ON BEING INEFFICIENT." HE ALSO RECALLED THAT TAX DUE ON OIL REVENUE FROM PRODUCING FIELDS CAN BE OFFSET AGAINST THE COSTS OF EXPLOITING NEW FIELDS.
END UNCLASSIFIED.

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2. BEGIN LIMITED OFFICIAL USE. A SENIOR BNOC OFFICIAL TOLD US KEARTON WAS MERELY TRYING TO TELL THE PUBLIC THAT A NORTH SEA TAX REGIME COULD EITHER PRODUCE REVENUE OR PROVIDE INCENTIVE TO PRODUCE AS MUCH OIL AS POSSIBLE, BUT THERE ARE LIMITS TO ITS BEING ABLE TO DO BOTH. HOWEVER, THE OFFICIAL WOULD NOT DENY THAT KEARTON'S

INTENTION WAS TO URGE A REVIEW OF THE TAX REGIME.

3. COMMENT: KEARTON'S REMARKS WERE SELECTIVE AND SEEM TO HAVE BEEN DESIGNED TO SERVE BNOC'S ASPIRATIONS. HE NEGLECTED TO STATE THAT THE TOTAL GOVERNMENT SHARE VIA PRT, CORPORATE TAX, AND ROYALTY EXCEEDS 70 PERCENT ONCE THE 175 PERCENT DEDUCTION HAS BEEN TAKEN.

4. MORE IMPORTANTLY, HE DID NOT MENTION THAT THE APPLICATION OF TAXES DUE FROM PRODUCING FIELDS AGAINST NEW FIELDS WAS DESIGNED TO MAKE OTHERWISE MARGINAL OIL FIELDS ECONOMICALLY VIABLE. IN NORTH SEA CONDITIONS, SUCH INCENTIVES ON MARGINAL FIELDS ARE OFTEN CRUCIAL. FOR EXAMPLE, IT IS WIDELY KNOWN THAT BP IS ABLE TO PLAN DEVELOPMENT OF THE MAGNUS AND BUCHAN FIELDS ONLY OUT OF PROCEEDS FROM THE FORTIES FIELD. BUCHAN'S RECOVERABLE RESERVES, PERHAPS 150 MILLION BARRELS, ARE FAR LOWER THAN THOSE NORMALLY CONSIDERED COMMERCIAL. MAGNUS' 400 MILLION BARRELS - NORMALLY STILL MARGINAL - LIE IN FAR NORTHERN SEAS IN 615 FEET OF WATER. THE ABSENCE OF SUCH TAX INCENTIVES COULD ALLOW BNOC TO DISPLACE PRIVATE COMPANY ACTIVITIES AND CLAIM THE ROLE OF MARGINAL FIELD DEVELOPER AS ITS OWN. INDEED, IN RECENT TESTIMONY BEFORE PARLIAMENT, KEARTON SAID BNOC'S EXISTENCE WAS NECESSARY IN ORDER TO DEVELOP MARGINAL FIELDS WHICH THE PRIVATE COMPANIES DID NOT FIND PROFITABLE. END LIMITED LIMITED OFFICIAL USE

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